

# INVESTMENT NOTE

11 AUGUST 2025

## SURFING THE TRUMP TSUNAMI

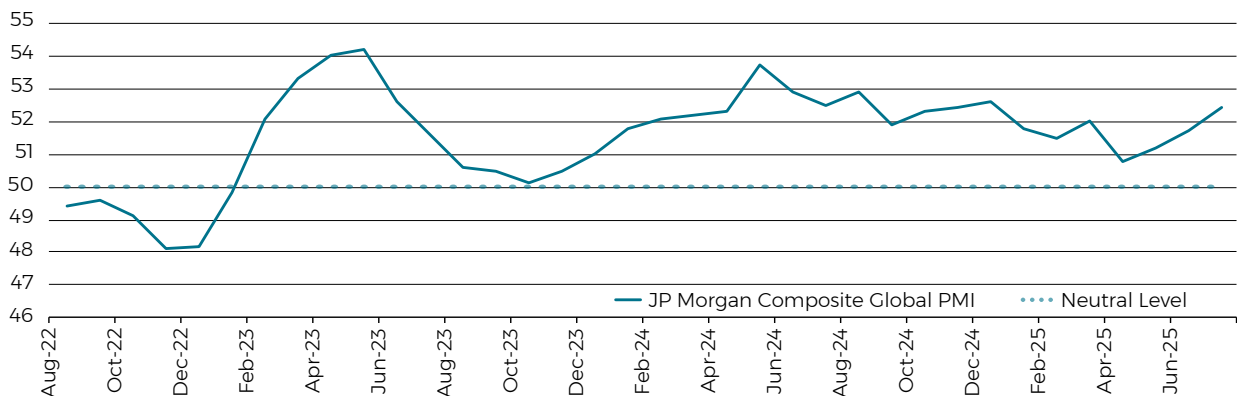


IZAK ODENDAAL

**The recent magnitude 8.8 earthquake off the far eastern Kamchatka Peninsula in Russia was one of the most powerful on record and immediately triggered tsunami warnings across the Pacific Ocean as far as Hawaii. However, when the waves arrived, the damage was much less than feared.**

Are we seeing something similar with Trump’s tariff tsunami? In other words, is the economic impact of US President Trump’s steep trade tariffs smaller than expected? The short answer is that it is too soon to tell, but so far economic activity inside and outside the US has held up surprisingly well. A timely example being the Global Purchasing Manager’s Index that remained comfortably above the 50-point neutral level in July (Chart 1). The economic resilience has in turn supported equity markets and, despite the considerable uncertainty, we’re on track for a decent year in terms of equity returns (Chart 2).

**CHART 1: GLOBAL PURCHASING MANAGERS' INDEX**



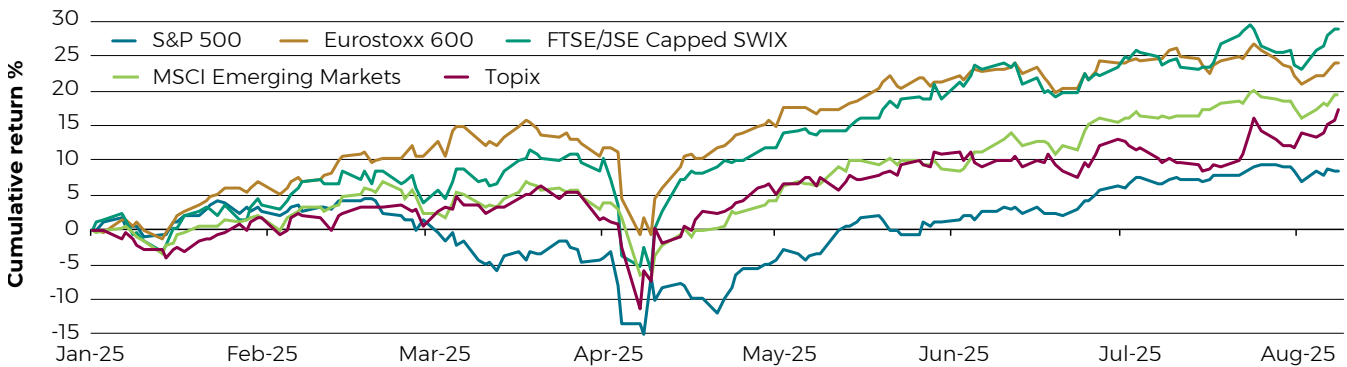
Source: LSEG Datastream



This is good news of course, but a downside is that Trump might be emboldened to move the goalposts again and raise tariffs further. He has, for instance, applied steep tariffs on India and Brazil for political, rather than economic reasons. None of the “deals” agreed to in the past few weeks should necessarily be seen as permanent – one of his first actions in office this year was to renege on the USMCA trade agreement he himself negotiated with Canada and Mexico

in his first term – though they are important steps in de-escalating the trade war. It is notable that the tariffs in place today are not too dissimilar from what was announced in April when markets fell sharply, but there is no sign of panic this time. This points to the fact that all kinds of extreme scenarios were possible back then, while now we face a narrower set of outcomes. There is also simply the fact that the shock factor can only apply once.

**CHART 2: GLOBAL EQUITY RETURNS IN 2025 IN US DOLLARS**



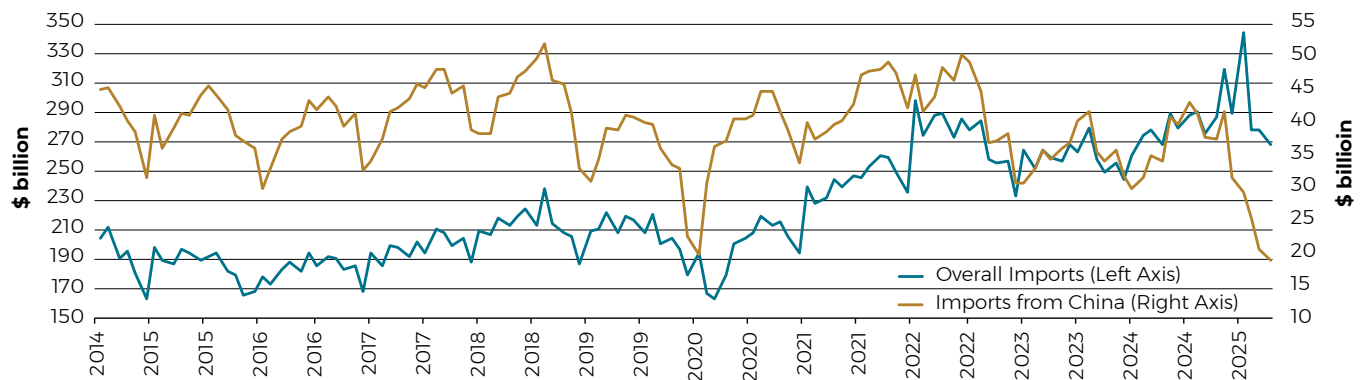
Source: LSEG Datastream

**TEMPORARY REPRIEVE**

One reason for the resilience is that companies stockpiled goods ahead of tariff announcements and have been selling off this inventory at pre-tariff prices. This offers only a temporary reprieve, however. Chart 3 shows the sharp jump in US imports in the first few months of the year. However, these have since fallen back to 2024 levels. Also notable is how sharply US imports from China have fallen. Tariffs and other trade barriers clearly had an impact already.

China’s overall exports were 7% higher than a year ago in July, however. Almost 20% of its exports went to the US before Trump’s first term. That number has halved, but China’s export machine remains in rude health. Some of this points to a rerouting (or transshipment) of Chinese goods through other countries to the US, a practice the Trump administration is clamping down on. However, it also suggests that China has managed to diversify its export base to make it less dependent on a single market.

**CHART 3: US IMPORT VALUES**



Source: LSEG Datastream

To underscore this point, Danish shipping giant Maersk upgraded its profit outlook last week, saying that strong trade growth in the rest of the world was compensating for weakness in the US. In a classic case of companies adapting to changing conditions, it reckons US tariffs might even be good for business as customers seek a one-stop shop for logistics needs given increased complexities.

Another supporting factor for the world economy is that central banks outside the US have cut interest rates, providing

a cushion for households and businesses across the world. A weaker dollar also helps, for instance by lowering the cost of imports like oil. In the US, despite no rate cuts by the Federal Reserve, overall financial conditions remain easy, credit markets are functioning well, banks are lending, and fiscal policy remains loose. Massive AI-related spending is also supporting the US economy.

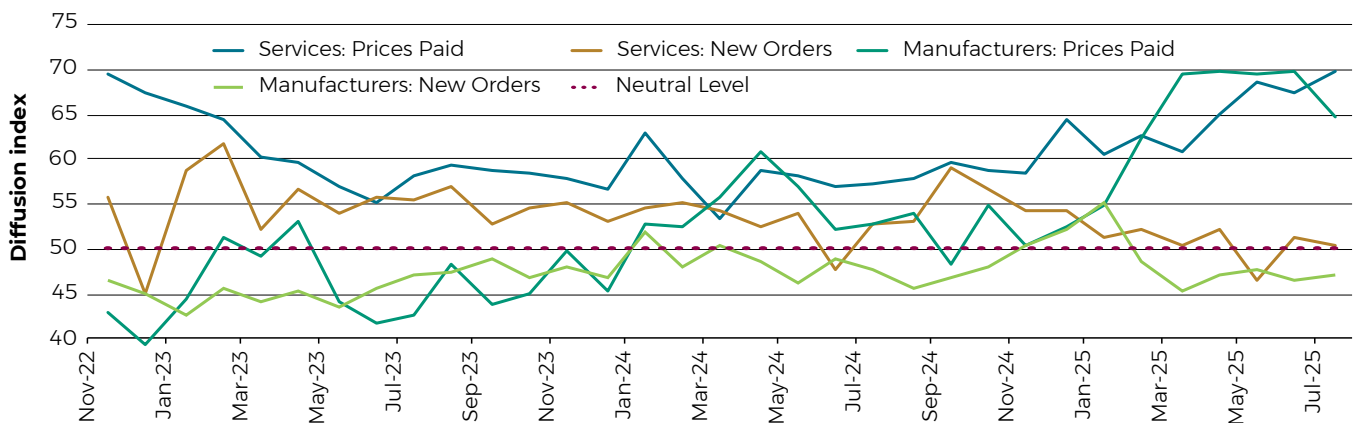
## TAX HIKE

Despite these positives, the negative consequences of tariffs cannot be wished away. It represents a huge tax hike for Americans and a potential loss of income for other countries. American companies face higher costs on imported inputs, whether those are raw materials, intermediate goods or the final product sold to consumers. Exporters in other countries will probably offer discounts where they can in order to avoid losing business, but the burden of tariffs is likely to fall on firms in the US. In some cases, the exporting firm is also the importer, for instance if Toyota imports cars from one of its non-US factories to sell in America. It said last week it would take a \$9.5 billion hit due to tariffs. So far, most car major companies have chosen to absorb tariffs in their margins, rather than raise selling prices. Firms in other sectors will probably try to do the same as far as possible and look for cost savings elsewhere. One area will be labour costs, and we've already seen a noticeable slowdown in hiring (so noticeable that Trump fired the head of the responsible

statistical agency). However, in the end there is only so much firms can do to absorb the tariffs, and some of it will be passed on to consumers in the form of higher prices. Raising prices is always risky, since consumers might shun your product. If your competitors also raise prices, consumers will have to choose between foregoing the item in question or pay up but spend less elsewhere. Somewhere, someone's sales will suffer.

According to the long-running ISM Purchasing Managers' indices, firms across manufacturing and service sectors are reporting paying higher prices, while sales orders are falling and employment plans are being scaled back. Economic growth is likely to slow in the months ahead. Perhaps not enough to count as a tsunami, but we'll almost certainly see some big waves. This in turn should result in the Fed starting to cut interest rates, despite its concerns over tariff-induced inflation.

**CHART 4: US PURCHASING MANAGERS' INDICES PRICES AND ORDERS SUB-COMPONENT**



Source: LSEG Datastream

Before getting too gloomy, however, it is worth reflecting that the modern global economy is more flexible and adaptable than often assumed, partly due to ongoing technological improvements. The world economy is much more services-orientated these days and less exposed to the inventory cycles that contributed to recessions in the 20th

century. It rebounded quickly from the 2020 lockdowns, and the 2022 interest rate surge didn't cause the widely expected global recession. There were earthquakes and aftershocks, but the tsunamis were not as bad as feared.

After a period of difficult adjustment, life will go on. Businesses around the world will adapt as they always do, though some

certainty will go a long way. The longer tariff levels jump around, the more difficult it is to plan. Importantly, for the time being, most countries seem keen to expand trade among themselves irrespective of what the US does. The US itself will probably eventually return to a more pragmatic trade policy, especially if the complaints from Americans over higher prices and less choice pile up.

In South Africa, the 30% tariffs on exports to the US are a headwind but might be lowered in due course. Whether this happens in time is an open question. Several companies have already warned that export contracts to the US are in danger and the associated jobs are at risk. The biggest concern is around the automotive industry, where decisions will be made at company headquarters in Germany or Japan.

At the start of the year, economists were pencilling in South African GDP growth of around 1.8% for 2025. This has now

been cut to around 1% due to the tariff headwinds but is still positive and higher than the last two years. Here too there are economic offsets. The Reserve Bank has cut the repo rate by 1.25 percentage points over the past year, while lower inflation, currently around 3%, raises real income growth. For instance, with last week's petrol price cut, motorists are paying R1.50 per litre less to fill up compared to a year ago.

The jump in platinum and palladium prices since the start year, 45% and 25% respectively, will have a positive effect, if sustained, by supporting a firmer rand and also feeding into higher corporate taxes. Some of this windfall will presumably also make it into the pockets of workers as bonuses and shareholders as dividends. The same is true of gold, but South Africa is no longer the major gold producer it once was.

## STILL AFLOAT

Let's conclude with a short thought experiment. Imagine that you already knew at the beginning of the year what Donald Trump would do in 2025: trade war, bombing Iran, threatening to invade Greenland, to name a few. What would you do with your portfolio? You might have bought some gold, which would have worked out well, but you would probably also sell your shares in anticipation of a market meltdown. At the very least you'd probably liquidate your South African equity holdings, given the 30% tariffs the country now faces, and bet that the rand would be much weaker against the dollar. And yet here we are, with a rand that has gained against the dollar, the FTSE/JSE All Share Index at a record 100 000 points, and perky global equity markets.

This is the difficulty with trying to predict the future. Even if you get your calls right, you might completely misread the market reaction. This is not to say that markets will continue marching higher. They never move in a straight line and there are bound to be bumps along the way, especially if signs of economic weakness emerge or there are more policy shocks. Rather, the point is that if you weren't invested, you've missed out. Long-term returns are made up of such bursts higher, and we cannot predict when it happens. For most investors, irrespective of the environment, the sensible option is to get their mix of asset classes right to achieve their investment goal. As any surfer will tell you, it is all about balance. And then just sticking to the plan and ignoring the noise (and the news if possible).

## EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US\$	4 125.0	2.54%	1.20%	11.25%	20.33%
United States	S&P 500	US\$	6 389.0	2.42%	0.79%	8.62%	20.12%
Europe	MSCI Europe	US\$	2 421.0	3.02%	2.07%	20.87%	17.13%
Britain	FTSE 100	US\$	12 235.0	1.60%	1.43%	19.62%	17.83%
Germany	DAX	US\$	2 406.0	3.66%	2.56%	24.08%	44.59%
Japan	Nikkei 225	US\$	283.1	2.29%	3.93%	11.57%	19.71%
Emerging Markets	MSCI Emerging Markets	US\$	1 254.0	2.28%	0.88%	16.65%	19.89%
Brazil	MSCI Brazil	US\$	1 434.0	4.29%	4.44%	21.84%	-0.69%
China	MSCI China	US\$	78.5	1.95%	0.86%	21.76%	41.86%
India	MSCI India	US\$	1 006.9	-1.09%	-2.06%	-1.67%	-5.99%
South Africa	MSCI South Africa	US\$	585.0	6.36%	5.98%	36.05%	35.42%

## EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	100 855.0	3.18%	2.37%	19.93%	24.91%
All Share	All Share (Total Return)	Rand	18 782.0	3.18%	2.37%	22.18%	29.28%
JSE Capped SWIX	Capped SWIX (Total Return)	Rand	45 790.7	3.18%	2.50%	21.68%	28.71%
TOP 40/Large Caps	Top 40	Rand	17 179.0	3.72%	2.99%	26.11%	30.91%
Mid Caps	Mid Cap	Rand	28 408.0	0.41%	-0.66%	12.98%	21.22%
Small Companies	Small Cap	Rand	45 939.0	0.10%	-1.15%	3.74%	23.16%
Resources	Resource 20	Rand	7 940.4	11.26%	14.06%	76.06%	57.98%
Industrials	Industrial 25	Rand	30 857.0	2.14%	0.20%	18.53%	29.94%
Financials	Financial 15	Rand	16 569.0	-0.40%	-1.83%	5.52%	14.87%
Listed Property	SA Listed Property	Rand	2 649.3	1.44%	-0.06%	10.25%	22.15%

## FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government S&P Overall (USD Unhedged)		US\$	77.4	0.39%	1.16%	4.81%	0.72%

## FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 209.3	-0.03%	0.13%	9.67%	16.88%
Government Bonds	BESA GOVI	Rand	1 189.9	-0.01%	0.14%	9.59%	16.76%
Inflation Linked Bonds	BESA CILI	Rand	389.2	1.04%	1.12%	3.33%	6.77%
Cash	STEFI Composite	Rand	622.0	0.14%	0.16%	4.59%	7.96%

## COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US\$	66.6	-4.42%	-7.51%	-11.21%	-15.71%
Gold	Gold Spot	US\$	3 401.0	3.50%	2.90%	30.01%	41.89%
Platinum	Platinum Spot	US\$	1 332.0	5.05%	1.37%	45.57%	43.69%

## CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	17.74	1.84%	2.68%	6.18%	3.53%
ZAR/Pound	ZAR/GBP	Rand	23.86	0.71%	0.84%	-0.96%	-1.80%
ZAR/Euro	ZAR/EUR	Rand	20.65	1.53%	0.71%	-5.35%	-2.93%
Dollar/Euro	USD/EUR	US\$	1.16	0.00%	-1.64%	-10.78%	-6.03%
Dollar/Pound	USD/GBP	US\$	1.35	-1.28%	-1.87%	-7.07%	-5.58%
Dollar/Yen	USD/JPY	US\$	0.01	0.21%	-2.02%	-6.04%	0.30%

Source: I-Net, figures as at 8 August 2025

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